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C O N F I D E N T I A L SECTION 01 OF 02 KINSHASA 000961

SIPDIS

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TAGS: [ECON](#) [EFIN](#) [PGOV](#) [CG](#)

SUBJECT: IMF GUARDEDLY OPTIMISTIC ABOUT DRC ECONOMY

Classified By: DCM TDougherty for reasons 1.4 b/d.

11. (C) Summary. Visiting IMF officials expressed guarded optimism about DRC economic circumstances and will recommend that the GDRC proceed to the sixth and final IMF review. The team stated that the DRC has made adequate fiscal and monetary progress, with generally stable inflation and exchange rates, despite a fragile macroeconomic situation. Some in the international community emphasized frustration over the GDRC's continued overspending (particularly on travel) and emphasized that the IMF must carry the message to the DRC that this is unacceptable. The IMF acknowledged Congolese shortcomings which it will continue to monitor. The Fund will request an extension of the current PRGF which would otherwise expire in June. We expect the sixth review could begin in November, with the current program possibly being extended until national elections are concluded in the first half of 2006. End Summary.

12. (SBU) The IMF Review Team, lead by Cyrille Briancon, visited Kinshasa May 24-31 to finalize the fifth review under the Poverty Reduction and Growth Facility. This was the third visit during the fifth review cycle as a result of the review being delayed since January due to macroeconomic destabilization resulting from fiscal slippage and subsequent inflation. Emboffs met with Briancon and his team twice. The Ambassador hosted a breakfast for Briancon and IMF Resident Representative Arend Kouwenaar on May 27, and DCM and EconOff attended an out-briefing for donors on May 31.

Stabilization Cause for Optimism...

13. (C) At the May 27 breakfast, Briancon acknowledged that the Congolese economy "remains extremely fragile at the macroeconomic level" but emphasized recent inflation and exchange rate stabilization and increased budgetary control as evidence of increasingly sound economic policy. The high inflation that began in late 2004, and which saw prices rise 19% from January to mid-April, has largely been brought under control. Briancon said that the IMF's inflation target through 2005 is an optimistic 20-25%, although he admitted that it may reach as high as 30%. The exchange rate is now at 505 FC/\$1 -- a slight improvement since April. Additional positive signs included the Central Bank's stabilization of its dollar reserves at 90%, enhancing its ability to absorb excess liquidity.

14. (C) The Ambassador pointed out that completing the ongoing census of combatants is necessary in order to develop a coherent budget to pay military salaries regularly. Substantial numbers of claimed but "phantom" soldiers will be taken off the rolls. The lower payroll number should enable increases in military pay to more reasonable levels (e.g., increasing the \$10/month currently allocated to soldiers), while staying within overall budgeted levels. While acknowledging the point, Briancon expressed concern that civil servants would then also demand salary increases, and that financing such a pay increase would consume the GDRC's entire current discretionary budget.

...Although Overspending and Corruption Frustrate Many

15. (SBU) Overspending on official travel remains the DRC's greatest budgetary problem, Briancon said, because it generates both cash shortfalls and a strongly negative perception. Briancon noted that, although the DRC has decreased maximum travel per diems from USD 1000 to 500 for senior officials (with corresponding cuts for those of lower rank), the still high rate undermines the GDRC's lack of full commitment to necessary austerity. Briancon said that travel line items account for one-third to 40% of budget overruns, and that the IMF is pressuring the DRC to reduce the per diem by an additional 25%. On the plus side, military spending has dropped from the peaks that national emergencies provoked last year. Briancon said that the budget is currently fully funded, although a number of pledged international donations are delayed.

16. (C) The Minister of Budget confirmed at a June 8 meeting with the Ambassador that the GDRC was actually running a budget surplus as of May 2005, with receipts being somewhat higher than anticipated and overall spending somewhat lower. He noted, however, that the "quality" of expenditures needs

further improvement. Specifically, the government needs to decrease what the Minister termed "sovereignty" expenses, including travel, in favor of "pro-poor" spending. The Minister alluded to the fact that decreasing and controlling "sovereignty" expenditures represents a major change in the way of thinking of GDRC decision-makers who have been accustomed for decades to assuming that anything associated with senior officials would somehow be funded. The Minister also noted that per diem rates will be cut once again next month.

17. (C) At the IMF's May 30 outbrief with donors, representatives of some diplomatic missions expressed frustration with corruption, lack of transparency, overspending, and poverty, and their perception that the IMF is not sufficiently pressuring the GDRC for progress in these areas. Some CIAT ambassadors had expressed similar concerns at the regularly scheduled CIAT meeting on May 26 to which Briancon and his team had been invited. On both occasions, the IMF acknowledged that it was very aware of these problems. As a result of continued pressure on the GDRC regarding these issues, some progress has been made. Briancon noted, for example, that the IMF is helping the DRC begin publishing its budgets quarterly in electronic and paper forms to increase transparency. Short of terminating the program (an option no one supports and all agree would do far more harm than good), the best course of action is to continue pressing for transparency and expenditure controls, and to provide technical assistance as appropriate. CIAT subsequently fully endorsed the IMF program in its communique of June 9 (septel).

IMF Offered Plans to Move Forward

18. (C) At the May 27 breakfast, Briancon offered the Ambassador an approximate timeline for the continued review process and explored possible conflicts with the proposed electoral schedule. The IMF will request an extension of the current program from the June 11 deadline through October to finalize the fifth review. The sixth review could begin in November, and the IMF could extend the program through June 2006. Briancon was sensitive to the political situation and asked if it should consider timing the sixth review around the election schedule, acknowledging that uncertainty surrounding elections will continue to have economic consequences.

Comment

19. (C) Briancon was frank in his "the glass is half full" assessment of the GDRC's performance up to this point. In fact, he noted "the glass may only be a third full." While inflation and exchange rates are now apparently under control, the slippage since late 2004 was serious, and it is clearly too early to declare renewed victory. Briancon stressed that the macroeconomic progress made by the GDRC over the past two years fully justifies the continuation of the current program -- a judgment with which we fully concur. While corruption needs to be tackled, and budgetary and spending systems need to be fully implemented, we remain convinced that we have more leverage with an ongoing IMF program than we would without. It is also worth noting that this is all new: past governments in Zaire/Congo basically did not have budgets, much less any system of monitoring, controlling, and reporting. Moreover, the relative economic stability resulting from the current program is essential in creating a climate conducive to peaceful and credible elections and to a stable post-transition government. End Comment.

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